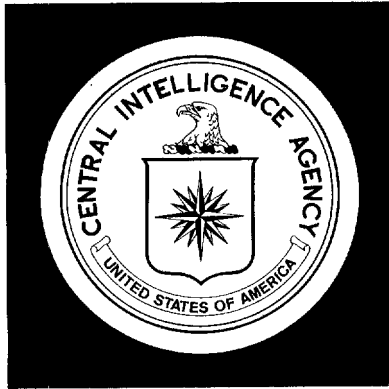


Top Secret

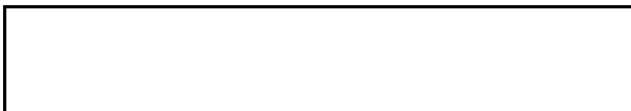


Central Intelligence Bulletin

State Department review completed

Top Secret

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308

January 31, 1974

25X1

Approved For Release 2004/07/08 : CIA-RDP79T00975A026100040001-7

Approved For Release 2004/07/08 : CIA-RDP79T00975A026100040001-7

25X1

January 31, 1974

Central Intelligence Bulletin

CONTENTS

SOUTH VIETNAM: Communists reportedly do not intend to launch major offensive "for some time to come."
(Page 1)

25X1

ISRAEL: Government move likely to cause substantial increase in food prices. (Page 5)

CUBA-USSR: Castro praises Brezhnev's efforts toward detente. (Page 6)

BOLIVIA: Peasant demonstrations in Cochabamba crushed. (Page 7)

JAPAN-FRANCE: Japanese power companies purchase uranium enrichment services. (Page 8)

25X6

INTERNATIONAL MONETARY DEVELOPMENTS: Dollar's appreciation since float of French franc has been reversed in most European markets. (Page 11)

FOR THE RECORD: (Page 12)

SOUTH VIETNAM: Communist cadre in South Vietnam have been briefed on a new COSVN resolution that states a large-scale offensive will not be feasible for some time, according to a recent rallier. The resolution calls for renewed political efforts to topple the Saigon regime, consolidation of Communist-held territory, and enhancement of the PRG's image.

The high-level instructions, which the rallier has identified as COSVN Resolution 12, allegedly are based on the resolution of Hanoi's 21st Central Committee plenum, which may have been held as early as last fall. The new resolution concedes that the South Vietnamese Government is too strong and Communist forces too weak for a Communist military victory.

Communist military forces are to remain vigilant, defend the "liberated areas," and concentrate on rebuilding and training. Full-scale conflict will erupt only if Saigon's forces encroach extensively on Communist territory. The resolution describes this as the "least desirable" of many possibilities.

Politically, the new resolution calls on the Viet Cong to spruce up their political apparatus, improve life in the liberated areas, organize pressure groups to participate in popular protests against the government, and increase efforts to force Saigon's compliance with the political provisions of the cease-fire agreement. New diplomatic initiatives, including changing the name of the Provisional Revolutionary Government (PRG) to a "people's republic" and trying to gain wider recognition for it from foreign countries, will be coupled with the local efforts.

A COSVN resolution has been expected based on the results of the 21st Central Committee plenum. Its contents, as reported by the defector, are in line with indications from other sources that the Communists are not planning large-scale warfare in the South anytime soon.

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Jan 31, 1974

Central Intelligence Bulletin

1

25X1

Approved For Release 2004/07/08 : CIA-RDP79T00975A026100040001-7

The main purpose of the resolution, other than to outline the specific guidelines of the new strategy, is to make it clear that patience is the order of the day. Cadre are enjoined to trust the party's judgment and to recognize that it will be a long and difficult struggle before final victory is achieved. According to the source, a "revolutionary victory" is not anticipated until sometime between 1979 and 1984.

25X1

Jan 31, 1974

Central Intelligence Bulletin

2

Approved For Release 2004/07/08 : CIA-RDP79T00975A026100040001-7

25X1

25X1

Approved For Release 2004/07/08 : CIA-RDP79T00975A026100040001-7

Next 1 Page(s) In Document Exempt

Approved For Release 2004/07/08 : CIA-RDP79T00975A026100040001-7

ISRAEL: The Labor government's decision last weekend to reduce the subsidy on manufactured foods could result in a 30- to 70-percent increase in the prices of some basic foodstuffs. The move was prompted by Tel Aviv's desire to curb budget outlays in the face of recent war costs. While the government's action will allow the diversion of more than \$200 million in civilian expenditures to the military budget, it will add to the inflationary trend. Last year consumer prices rose an unprecedented 26 percent. The supplemental cost-of-living increase to workers of 4 percent and other small subsidies will not offset the price rises.

The government has little choice but to allow prices to rise as long as defense spending remains high, and it will no doubt come under additional fire from political opponents for the economic policies. The government, however, may believe that this is a good time to take politically unpopular measures because much of the country's attention still is focused on the negotiations with the Arabs. Moreover, Tel Aviv may hope to draw on what is left of the Israelis' postwar spirit of self-sacrifice.

Nevertheless, pressure on the government to take drastic steps to halt inflation is likely to grow as the country returns to a peacetime footing and public dissatisfaction continues. [REDACTED]

CUBA-USSR: Fidel Castro, at a massive rally organized to honor visiting General Secretary Brezhnev, proclaimed Cuba's "eternal gratitude" to the USSR and praised Brezhnev's personal efforts "in favor of international detente."

Although Castro's remarks indicated a definite reduction in Cuba's public opposition to the concept of detente, his statements did not constitute an unqualified endorsement of Soviet policy. Castro's praise for detente was limited to its impact on the arms race and the consequent reduction in "world tension." He avoided any references to the economic, technical, and cultural aspects of Brezhnev's detente policy. In addition, Castro implied that Cuba still has no desire to emulate the USSR by seeking improved ties with the US.

Castro also gave some support to the USSR in its dispute with China. He denounced the "renegades of the revolutionary movement who--from allegedly Marxist stands--revile the Soviet Union and serve the interests of imperialism," but he did not identify China as the specific target of his criticism. This is a modest but significant step beyond Havana's previous position--held since 1969--that Cuba would stand with the Soviets only in the event of armed conflict with the Chinese. Prior to 1969, Castro had refused to take either side in the polemic. Castro thus implicitly endorsed Soviet efforts to convene a world conference of Communist parties for the purpose of criticizing China.

25X1

Jan 31, 1974

Central Intelligence Bulletin

6

BOLIVIA: President Banzer has crushed the four-day-old demonstration by peasants in Cochabamba--but at a high cost to his political base.

At least six protesters were killed by government forces, according to press reports. Troops and armored cars cleared roads blockaded by several thousand farmworkers protesting recent price increases. Military aircraft also were used, perhaps to frighten the peasants as well as for reconnaissance.

The brutal methods ordered by Banzer could spark defections on the part of some of his supporters in the army; the military has long had an accord with the peasants not to use force against them.

25X1

Jan 31, 1974

Central Intelligence Bulletin

7

JAPAN-FRANCE: Japanese power companies have signed a ten-year agreement to purchase uranium enrichment services from a French-led European consortium, EURODIF, starting in 1980. The agreement calls for the annual supply of enriched fuel equivalent to 25 percent of Japan's needs in 1980. The price is about one-third higher than the rate Japan has been paying for US services, but EURODIF's repayment terms and conditions are more favorable.

For some time, many Japanese officials have been anxious to reduce their country's complete dependence on the US for enrichment services. Japanese power industry spokesmen have been concerned that the US may not be able to meet world-wide demand in the mid-1980s, particularly if Tokyo speeds up construction of nuclear power facilities, which it is considering. In addition to EURODIF, limited discussions have been held with another European consortium and with the Soviet Union. [REDACTED]

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25X6

Approved For Release 2004/07/08 : CIA-RDP79T00975A026100040001-7

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Approved For Release 2004/07/08 : CIA-RDP79T00975A026100040001-7

INTERNATIONAL MONETARY DEVELOPMENTS: The dollar's appreciation since the float of the French franc has now been reversed in most European markets. Only the franc and the lira remain below their levels of January 18. Sterling has rallied, reaching its highest point since January 4. The pound's strength is due primarily to high domestic interest rates rather than any significant improvement in Britain's economic outlook.

The recent easing of capital controls in West Germany, Belgium, and the US has had the desired effect of reversing the dollar's rise. Luxembourg has also eased controls and other European countries are likely to follow. The dollar should consequently continue to weaken somewhat. Nevertheless, market reaction has probably been excessive because underlying economic conditions should contribute to the dollar's long-term strength.

In Tokyo, the dollar also drifted downward, allowing the central bank to remain out of the market for the fourth consecutive day, the longest respite since last July. Disciplinary action last week against three of Japan's biggest banks for speculating against the yen helped to ease the situation. Hints of oil price cuts, a slightly more optimistic outlook for the Japanese economy, and the removal of US restraints on capital outflows have also played a role. Heavy dollar sales by the Bank of Japan earlier in the month probably left trading companies and others with sufficient dollar holdings. [REDACTED]

25X1

Jan 31, 1974

Central Intelligence Bulletin

11

FOR THE RECORD*

Japan - Saudi Arabia: Agreement on an economic and technical cooperation pact was reached yesterday by Saudi Oil Minister Yamani and Japan's Foreign Minister Ohira. The accord is expected to be signed around mid-February when Saudi Foreign Minister Saqqaf visits Japan. It is seen by many observers as a prelude to a possible bilateral oil deal. []

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25X1

Taiwan - Saudi Arabia: Taiwan's vice economic minister will visit Saudi Arabia on Friday to negotiate an oil-trade agreement. Under the deal, first proposed last November, Taiwan would receive Saudi oil at the rate that existed prior to September 1973--100,000 barrels per day. In exchange, Taiwan reportedly would provide Saudi Arabia with technical aid and equipment for construction of an oil refinery. []

25X1

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Jan 31, 1974

Central Intelligence Bulletin

12

25X1

Top Secret

Approved For Release 2004/07/08 : CIA-RDP79T00975A026100040001-7



Top Secret

Approved For Release 2004/07/08 : CIA-RDP79T00975A026100040001-7